

VZCZCXRO7345
PP RUEHIK
DE RUEHNY #0748/01 3380643
ZNR UUUUU ZZH
P 040643Z DEC 09
FM AMEMBASSY OSLO
TO RUEHC/SECSTATE WASHDC PRIORITY 8016
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUCPDO/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEHCV/AMEMBASSY CARACAS 0097

UNCLAS SECTION 01 OF 03 OSLO 000748

STATE FOR EUR/NB, EEB/ESC - AGREENSTEIN

SENSITIVE, SIPDIS

1E. O. 12958: N/A

TAGS: EPET EINV SENV PREL NO VE RS

SUBJECT: Ambassador's Stavanger Discussions with GON and Oil Companies

REF: (A) Oslo 697 (b) Oslo 718

OSLO 00000748 001.2 OF 003

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Summary

11. (SBU) In meetings during the Ambassador's first visit to Norway's "oil city" of Stavanger, U.S. companies told the Ambassador they were keenly interested in access to more offshore production acreage, particularly in the environmentally/ politically sensitive area of Lofoten-Vesteralen. The Director General of the GON's Petroleum Directorate highlighted the state's role in ensuring that society shares in the risks and benefits of offshore oil development. End Summary.

12. (U) The Ambassador, accompanied by FCS Chief and Poleconoff, visited Stavanger, Norway's fourth-largest city and the center of the country's energy industry, between November 22 and 24. He met with executives from Exxon-Mobil, Hess, ConocoPhillips, Marathon, Halliburton, BakerHughes and Weatherford; Bente Nyland, Director General of the Norwegian Petroleum Directorate; Mayor Leif Johan Sevland; the Stavanger Chamber of Commerce's Committee on Norwegian-American Relations. The Ambassador also toured Stavanger's International School, spoke at a reception hosted by Amcham, and met with U.S. servicemen at NATO's Joint Warfare Center outside the city. His visit was covered by regional newspaper Stavanger Aftenblad and national state-owned broadcaster NRK.

Norwegian Petroleum Directorate (NPD)

13. (SBU) In a November 23 briefing for the Ambassador on the state's role in Norway's oil and gas industry, Stavanger-based Director General of the Norwegian Petroleum Directorate (NPD), Bente Nyland, emphasized that the state does not award operating licenses on the basis of prices bid, but rather aims to award development work to groups of bidders who can provide the best value from oil for society as a whole. The state typically takes a 20 percent share in both the investment and the return from development activities, though this varies from case to case. NPD claims to take the long view, and is very interested in maximizing total oil and gas recovery.

14. (SBU) Nyland stated that the seabed off Jan Mayen island had a very complicated geology which made prospects for oil and gas there relatively uncertain. As a result, energy companies were not interested in developing the area. She advised that energy companies were very interested in developing the much more accessible Lofoten-Vesteralen offshore blocks, but noted these were currently closed to exploitation. Nyland told us that a White Paper

on development in this area was due to be produced in 2010.

¶5. (SBU) The Director General said the GON is working hard to reduce greenhouse gas emissions in the energy sector (which generates about 27% of Norway's CO2 emissions), despite the tradeoff between enhanced oil recovery and reduced emissions. Norway is encouraging companies to supply their platforms with electric power from onshore sources and to reduce flaring of natural gas. (Note: Norway prohibits flaring except to test systems at the start of operations or in emergencies. End Note.)

Exxon-Mobil (EM)

¶6. (SBU) Managing Director Lee Tillman and his team emphasized EM's strong interest in obtaining new acreage for development, particularly in the Lofoten-Vesteralen areas. Industry wants a steady, predictable opening of new acreage. Currently open areas in the Barents Sea do not look promising. The even more remote area around Jan Mayen island - which is not currently open - is even less interesting to the international oil companies (IOCs), as noted above. Another concern is tough competition from majority state-owned Statoil, the dominant player on the Norwegian Continental Shelf (NCS).

¶7. (SBU) If the government does not open new production acreage, Norway risks losing out to other parts of the world in the competition for EM's investment resources, according to Tillman. EM is interested in not only more, but larger projects and in actually operating platforms rather than merely contributing equity. Higher energy production would not only supply Europe with badly-needed energy, but would also contribute to a better environment, given that Norway's oil and gas production is the least carbon-intensive in the world. At the same time, Norway's stable investment regime is very attractive to shareholders.

OSLO 00000748 002.2 OF 003

¶8. (SBU) Commenting on other markets, Tillman said that Russia's Shtokman project (in which Statoil and France's Total are currently partners with Russia's Gazprom) was struggling given current, lower gas prices. On Venezuela's nationalization of EM assets, he said EM did not object to the nationalization but wanted to receive market-based compensation.

¶9. (SBU) On environment issues, Tillman touted the success of industry's proposal to cut emissions of NOX (a nitrogen compound which contributes to acidification) through contributions to a fund rather than a NOX tax. He also highlighted EM's investments in various clean technologies, while suggesting that most first and second generation technologies were not currently commercially viable.

Hess

¶10. (SBU) Managing Director Alf Frugard provided an overview of Hess' relatively limited activities in Norway, concentrated in its small share of the Snohvit gas development in the Barents Sea and its North Sea Valhall field. He echoed EM's call for opening more acreage for exploration and development, especially in the Lofoten-Vesteralen areas. Frugard was hopeful that the GON might reverse its current policy of maintaining the protected region closed to oil and gas development. Hess is currently sponsoring two American students studying for a master's degree in petroleum engineering at the new University of Stavanger. Interestingly, Hess claimed that the accident rate for all companies' operations on the NCF had increased in recent years, though he did not have an explanation for this phenomenon.

Ambassador's meeting with Stavanger Mayor

¶11. (U) Mayor Leif Johan Sevland highlighted strong ties between the sister cities of Houston and Stavanger, and also noted the large resident American (and specifically Texan) community in Stavanger.

There is an annual exchange of high school students between the two cities, with about 100 students spending a week with a host family in their sister city. Sevland, a member of the center-right Høyre party, has been mayor for 14 years and is generally regarded as a successful booster for his city.

ConocoPhillips (CP)

¶12. (SBU) CP Country Manager (and Chair of Norway's Oil Industry Association) Steinar Vage generally agreed with points raised by other IOCs on the need for new acreage. He stressed the importance of opening the Lofoten-Vesterålen areas for Norway to retain the IOCs. Vage emphasized that the GON needs to develop new acreage to offset declining production from existing sources, given the large contribution of energy revenues to the state budget. CP is also looking at opportunities in East Greenland. Vage was not very optimistic about the prospects for the success of carbon capture and storage (CCS) efforts.

Marathon

¶13. (SBU) Country Director Kristin Faerovik expressed the company's desire for new acreage, while also suggesting that Statoil's dominance of the NCF has been a bottleneck for development. Faerovik claimed that Statoil has in many cases failed to develop assets in a timely manner, depriving other companies of business opportunities and delaying revenue-generating projects for Norway. The validity of recent licenses is now limited in duration to discourage delays. Faerovik noted Marathon's support for cancer research collaboration between the University of Stavanger hospital and the University of Texas' M.D. Anderson Cancer Center as an example of the company's contribution to the local community.

Service Companies

¶14. (SBU) The Ambassador met jointly with Halliburton's Country Vice President Jorunn Saetre, BakerHughes Country Manager Øyvind Grotmol, and Weatherford's Managing Director Rolf Leknes on November 24. The companies reiterated their interest in more acreage, noting that Statoil had set up a task force to lobby the GON on this issue. Saetre suggested that PM Stoltenberg had left himself some wiggle room to change state policy on opening new acreage later in his new government's term of office, which runs from 2009 to 2013. The representatives pointed out that developing further oil and gas production is not only important for Norway fiscally, but is also a

OSLO 00000748 003.2 OF 003

question of maintaining the country's industrial capabilities in this sector. Halliburton expressed some concern about industry's current competitiveness, given the strong Norwegian currency, the krone.

¶15. (SBU) Comment: The oil companies were unanimous in calling for the government to increase the amount of acreage open for exploration and development, particularly in the sensitive and heretofore protected Lofoten-Vesterålen area. The Ambassador raised this in his initial courtesy call with the Oil and Energy Minister Terje Riis-Johannsen on November 25 (septel), but this will continue to be a difficult position for the government to reverse given the very strong opposition of the Labor Party's two junior coalition partners, the Center and Socialist Left parties, based on their environmental concerns (see ref A).

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